



# HOUSING

AUTHORITY OF THE  
CITY OF SANTA BARBARA

808 Laguna Street / Santa Barbara  
California / 93101

Tel (805) 965-1071  
Fax (805) 564-7041

August 11, 2008

*HAND DELIVERED*

Mr. David Gustafson, Housing and Redevelopment Manager  
Community Development Department  
City of Santa Barbara  
630 Garden St.  
Santa Barbara, CA 93101

RE: REQUEST FOR DEBT FORGIVENESS AS PART OF HOUSING AUTHORITY'S  
PLANNED ACQUISITION OF COTTAGE GARDENS APARTMENTS—227 W. DE LA  
GUERRA ST.

Dear Dave:

Pursuant to our recent conversations, the Housing Authority wishes to formally advise the City and the Redevelopment Agency (RDA) of its intent to execute its option to purchase the 17 unit senior apartment complex at 227 W. De La Guerra St. known as Cottage Gardens. As part of our purchase, we are hereby requesting debt forgiveness on a portion of the RDA's outstanding debt on the subject property. The amount of forgiveness requested is \$435,700. Once acquired, the City Housing Authority will operate the property in perpetuity as affordable, low rent senior housing.

As you will recall, Cottage Gardens was developed by Architects Richard Bialosky and Detlev Peikert under the Low Income Housing Tax Credit (LIHTC) program. It is currently owned by Cottage Gardens Associates, Ltd., a California limited partnership, in which Mr. Bialosky and Mr. Peikert serve as General Partners. Cottage Gardens was completed in December 1993 and subsequently master leased to the Housing Authority for 15 years. Our involvement was designed to help assure the investors—both the City/RDA as well as the limited partners—that the property would be well managed, comply with LIHTC program requirements, and maintain both its physical and fiscal integrity.

We have achieved all of those objectives and both the limited and general partners can now safely exit from their ownership position—something which the LIHTC program allows for after 15 years of successful operation. Under our Master lease, the Housing Authority has an option to purchase the property. We can execute our option as of October 25, 2008 and we have advised the owners of our intent to do so. Our intended closing date is on or around November 1, 2008. It is also the Housing Authority's intent and desire to hold the property as rental housing in perpetuity—noting that this goes far beyond the remaining 40 years of required compliance with the income and rent restrictions of the LIHTC program and the remaining 15 years required by the City's affordability covenant on the property.

To this end, we recently commissioned an appraisal of the property (via Santa Barbara Bank and Trust) by MT Associates (Mike Teobaldi) of Westlake Village. A copy of the appraisal is enclosed. It establishes fair market value of the property as of July 28, 2008 as follows:

<b>Market Value Assuming Section 8 Rental Assistance</b>	<b>\$2,450,000</b>
<b>Market Value with Restricted Rents</b>	<b>\$1,715,000</b>

Our option allows us to purchase the property at 95% of the Restricted Rents value shown above—which calculates to \$1,629,250; PROVIDED that this value is not less than the combined outstanding balances of the First Encumbrance and Second Encumbrance and Lessor's costs of sale. According to our information, the balance on the First Encumbrance remains at \$920,000. Since restructuring this First Encumbrance in late 2006, the owners have opted for interest only payments. In talking with City Finance Staff, we have estimated the balance on the Redevelopment Agency's loan (i.e. the project's Second Encumbrance) to be \$692,896 as of the end of October 2008. These two figures total \$1,612,896—and are less than our proposed purchase price as set by Mr. Teobaldi. Thus, the purchase price will be \$1,629,250.

It is also important to note that our Master Lease (Section 4.3.3) calls for us as Lessee to use all of the project's accrued Operating Reserve to pay down the RDA's Second Encumbrance should we exercise our Option to Purchase the Premises. We estimate that the project's Operating Reserve will be \$257,227 come the end of October 2008. This would pay down the outstanding balance on the RDA loan to \$435,669 (say \$435,700) as part of our purchase. This remaining amount, \$435,700, is the amount of debt forgiveness we seek from the Redevelopment Agency.

As stated earlier, our ownership will ensure the project's continued compliance with LIHTC restrictions for the next 40 years, City requirements for the next 15 years and, thereafter, the Housing Authority's own Non HUD program requirements for serving low income households at affordable rents in perpetuity. Thus, our subsidy request to the City/RDA to buy and preserve this property in perpetuity as affordable rental housing is \$435,700—or \$25,629 per unit.

On a related and historical note, I wish to remind all parties that this approach (i.e. RDA capital investment in early LIHTC projects pursued by private, for profit developers; Housing Authority master leasing of the completed project for excellence in management and program compliance; followed by an option to purchase in year 15; to be followed by RDA debt forgiveness as part of the Housing Authority's purchase) was the scenario laid out and agreed to (in general terms) back when these projects were structured.

I am happy to report that this scenario has played out extremely well. We have a well operated and still beautiful property in Cottage Gardens senior apartments capable of serving low income residents of Santa Barbara for decades to come. The Housing Authority's solid management has allowed for the project's operating reserve to grow each year, having never taken a draw on the reserve during the project's 15 years of operation. This has resulted in a projected balance of \$257,227 that can now be used to retire a good portion of the RDA's debt on the property.

Mr. David Gustafson  
August 11, 2008  
Page 3

In order to complete our purchase, be advised that the Housing Authority will be issuing a tax-exempt, mortgage revenue note in the not to exceed amount of \$1.5 million—noting that the probable amount of our borrowing will be closer to \$1.2 million. This will be used to cover the balance of our purchase price (\$1,629,250 less RDA debt forgiveness of \$435,700 = \$1.2 million).

If our funding/debt forgiveness request could be placed before the City Council/RDA Board in the next 30 to 45 days, it would be greatly appreciated. As always, we look forward to working with you and your staff on another important rental property acquisition and affordable housing preservation opportunity for the community.

Sincerely,

HOUSING AUTHORITY OF THE  
CITY OF SANTA BARBARA

A handwritten signature in black ink, appearing to read "Rob Pearson", with a long horizontal flourish extending to the right.

ROBERT G. PEARSON  
Executive Director/CEO

encl.

cc: Housing Authority Commission  
S. Szymanski, Deputy Executive Director  
R. Maccianti, Property & Development Director  
R. Lawrence, Finance Director  
R. Fredericks, Deputy Executive Director  
S. Lowe, Lawyers' Title Company  
Mark Manion, Esq., General Counsel, Price, Postel & Parma  
Paul Thimmig, Esq., Bond Counsel, Quint and Thimmig